

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS HARARE 001319

SIPDIS

STATE FOR AF/S, AF/EX
USDOC FOR AMANDA HILLIGAS
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON

1E. O. 12958: N/A
TAGS: [ECON](#) [EAID](#) [EAGR](#) [EINV](#) [PGOV](#) [ZI](#)
SUBJECT: Demand Explodes at Forex Auctions

11. Summary: With the bargain-basement exchange rate of Z\$5300:US\$ still holding, buyers of foreign exchange at the Reserve Bank's (RBZ) twice-weekly currency auctions are gobbling up as much as they can. Yet with exports apparently dropping, the RBZ lacks inflows to satisfy most importers. End summary.

Dirt-cheap U.S. dollars

12. Consider the surge of total bid amounts at July auctions:

7/1	US\$ 30 million
7/5	27
7/8	30
7/12	29
7/15	32
7/19	35
7/22	38
7/26	40
7/29	44

Forex demand in July increased nearly 50 percent. As recently as June 17, bids totaled just US\$ 10 million.

13. Due to disappointing export revenue, the RBZ has been able to offer a mere US\$ 9.5 million at each auction. Forex is so scarce that auction winners now must wait two months until the U.S. dollars land in their accounts. At the auction's steeply overvalued Z\$5300:US\$ exchange rate, importers tell us they will buy any forex quantity they can get their hands on. In his address last week, RBZ Governor Gono expressed concern that auctions winners might be using forex for speculative rather than productive activities.

Comment

14. We expect the auction rate to soon reach Z\$5600:US\$, which is the RBZ's new guaranteed exchange for street purchases. This will not help much, since a very restrained parallel market (trading penalties are still severe) now trades at Z\$7200:US\$. As we have said repeatedly, the RBZ's commitment to an overvalued zimdollar is undermining exporters, whose other costs - wages, a new multi-layered value-added tax, electricity at double the region's average - are also rising. Many of these firms are only being kept afloat through RBZ loans at negative real interest rates. Ultimately, we do not know how many will survive this policy.

Sullivan